Alberta Heritage Savings Trust Fund

ANNUAL REPORT 2012–2013

Alberta

Heritage Fund

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Highlights

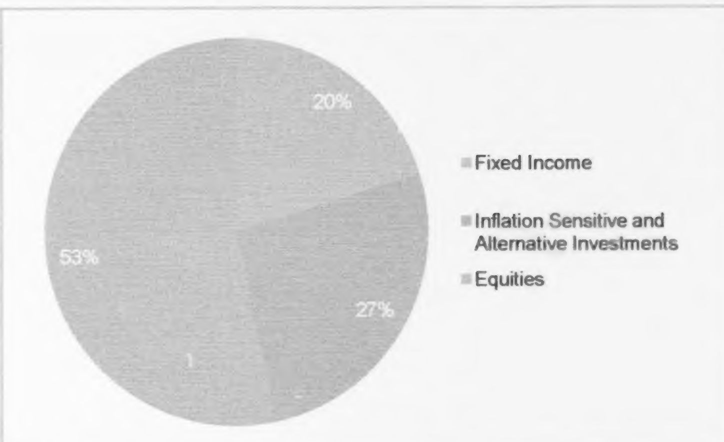
11.6% (net of fees)

RATE OF RETURN

$16.8 billion

FAIR VALUE OF ASSETS

Asset Mix as at March 31, 2013



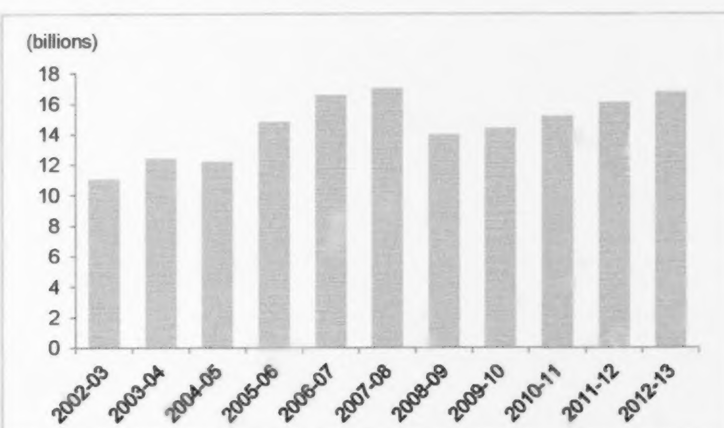
8.1% (net of fees)

10 YEAR RATE OF RETURN

$1,155 million

INVESTMENT INCOME TRANSFERRED TO GENERAL REVENUES

Market Value at Fiscal Year End



$161 million

INVESTMENT INCOME RETAINED FOR INFLATION-PROOFING

$34.6 billion

CUMULATIVE INCOME TRANSFERS SINCE INCEPTION

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MESSAGE FROM THE PRESIDENT OF TREASURY BOARD AND MINISTER OF FINANCE

Alberta's long-term savings fund was a strong performer this past year, beating the market and its own performance benchmarks to earn an 11.6 per cent return for the 2012-13 fiscal year.

The Heritage Fund's 11.6 per cent return surpassed its overall benchmark by 1.5 per cent. The fund earned $1.5 billion in gross income – the third-highest income recorded in the past ten years. At March 31, the fund's fair value was $16.8 billion, about $700 million higher than a year earlier.

These positive results are encouraging for Alberta as we embark on a new savings approach that will see government saving regularly in good times and in challenging times – something Albertans have told us they want to see happen.

Budget 2013 puts into law a responsible savings strategy, the first in over 25 years, where a portion of non-renewable resource revenue will be set aside right off the top. This will result in our total savings, through various funds and endowments, growing to more than $24 billion over the next three years.

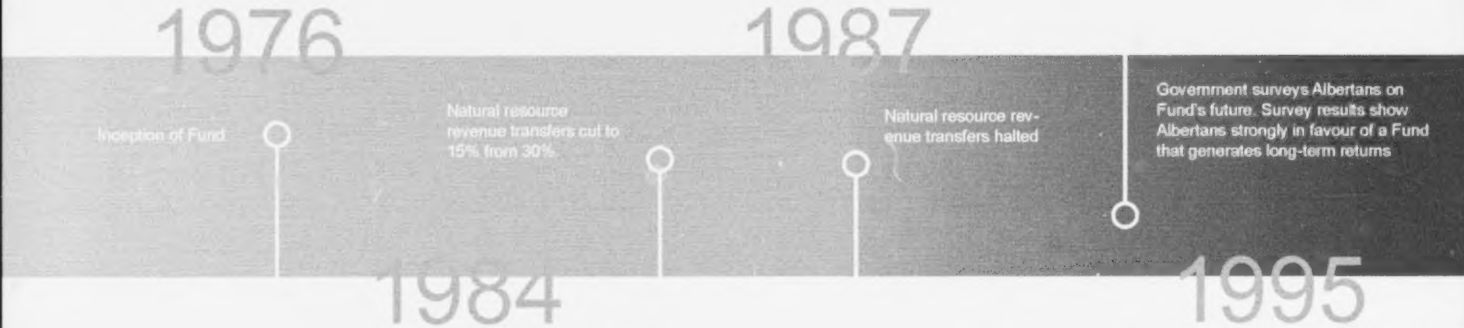
This, combined with the government's decision to phase out the current practice of withdrawing net income from the Heritage Fund by 2016-17, will help the fund grow faster than before.

The new savings strategy, combined with the Heritage Fund's prudent, long-term, diversified, global investment approach, will help secure a better future for Alberta as we move forward.

[Original signed by Doug Horner]

Honourable Doug Horner
President of Treasury Board and Minister of Finance

ABOUT THE HERITAGE FUND



WHAT IS THE HERITAGE FUND?

The Heritage Fund is Alberta's main long-term savings fund. Originally, the Fund was established to collect a portion of Alberta's non-renewable resource revenue for future generations. The Fund today produces income which supports government programs essential to Albertans like health care and education. In recent years, the Fund's net income has been used to support government programs, but a new savings policy announced on March 7, 2013 will see the Fund retain all of its income by 2016-17.

WHEN WAS THE HERITAGE FUND ESTABLISHED?

The Heritage Fund was created in 1976. Initially, 30 per cent of Alberta's non-renewable resource revenues were deposited into the Fund. As Alberta experienced tough economic times in the early 1980s, this percentage was reduced to 15 per cent in 1982 and deposits were stopped in 1987.

The Alberta government once again began depositing money into the Heritage Fund in 2005. The government allocated $3.9 billion from budget surpluses into the Fund from 2005 through 2008. Also, with the elimination of the Province's accumulated debt in 2005, legislation required a portion of investment income be retained for the purpose of inflation-proofing the Fund.

WHAT IS THE HERITAGE FUND WORTH TODAY?

The market value of the Fund was $16.8 billion on March 31, 2013.

WHO IS RESPONSIBLE FOR THE HERITAGE FUND?

The President of Treasury Board and Minister of Finance is responsible for the Fund and its investments. The Department of Treasury Board and Finance looks after the long-term strategy, developing investment policy and monitoring investment performance. The purchase and sale of stocks, bonds and other investments for the portfolio is managed by Alberta Investment Management Corporation (AIMCo).

The performance of the Fund is reported by the President of Treasury Board and Minister of Finance reports to Albertans annually and quarterly. The Annual Report of the Fund is approved by the Standing Committee on the Alberta Heritage Savings Trust Fund.

1997

Heritage Fund restructured: Economic and social development mandate ended as Fund is now only for long-term return generation. Standing Committee of the Legislature implemented to oversee Fund

2006

Legislated inflation-proofing begins: $384 million retained in fiscal 2006

2007

Government completes deposit of $1.0 billion for Access to the Future Fund. Government contributes an additional $1.0 billion from surplus for second year in a row

2013

Government announces new savings strategy and plans to retain income in the Fund.

WHAT HAPPENS TO THE INCOME EARNED BY THE HERITAGE FUND?

The Heritage Fund's legislation requires that it retain a portion of its income as protection against inflation. The remaining income is transferred to the Province's General Revenue Fund. These transfers from the Fund help keep taxes low and pay for priority programs.

In 2012-13, the Heritage Fund earned net income of $1,316 million in income, $161 million of which was retained in the Fund for inflation proofing and $1,155 million was transferred to the General Revenue Fund.

Over the past 37 years, $34.6 billion from the Heritage Fund has supported spending to help keep taxes low and pay for priority programs, such as health care, education, infrastructure and social programs.

The *Fiscal Management Act* requires that all of the investment income earned by the Fund be retained within the Fund by 2017-18, with a three year phasing in beginning in 2015-16. However, the government has accelerated the start date for this savings policy and the new income retention rules will be moved up one year to begin in 2014-15.

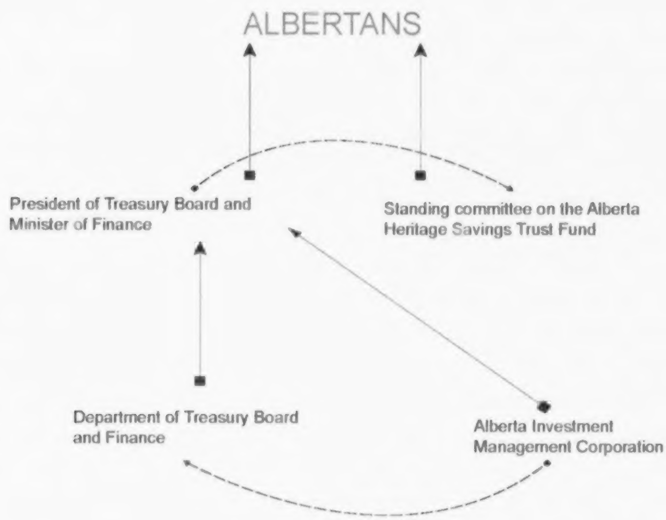
ARE THE HERITAGE FUND INVESTMENTS SECURE?

The key to sustainable investment performance is maintaining a diverse portfolio with a long-term focus, prudence, and investment discipline.

The Heritage Fund is managed to earn high returns over the long-term and therefore makes investments that carry some risk of market loss, such as equities. These investments can lead to larger variations in the value of the Fund from year to year, but they are expected to earn greater returns over time. The Fund is invested globally and across many asset classes to provide diversification, which reduces the risk of large losses in both the short and long-term.

HERITAGE FUND GOVERNANCE

The Heritage Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act*. The Act makes the President of Treasury Board and Minister of Finance responsible for managing the Fund's investments. The Act also created the Standing Committee on the Alberta Heritage Savings Trust Fund to oversee the management of the Fund.



The President of Treasury Board and Minister of Finance is responsible for managing the investments of the Heritage Fund, with the objective of maximizing long-term financial returns. Further, the Fund is to be invested in a prudent manner to avoid undue risk of loss and to obtain a reasonable return that will enable the portfolio to meet its objectives.

The Minister is supported in various aspects of the investment management process for the Heritage Fund by two groups: the Department of Treasury Board and Finance and Alberta Investment Management Corporation (AIMCo). The department is responsible for developing the Statement of Investment Policies and Guidelines for the Heritage Fund, accounting for the Fund, reporting on investments, for conducting ongoing research, analysis of asset allocation and risk management for the Fund. AIMCo is responsible for making and managing the investments of the Fund in accordance with the Statement of Investment Policies and Guidelines. AIMCo is a provincial corporation, headquartered in Edmonton and governed by a Board of Directors that includes senior business and investment management leaders.

The Standing Committee on the Alberta Heritage Savings Trust Fund, which is an all-party committee of the Legislative Assembly. The Committee is responsible under the Act for reviewing the performance of the Heritage Fund at the end of each fiscal year and reporting to the Legislature as to whether the mission of the Fund is being fulfilled. The Committee is also responsible for approving the annual report of the Fund. The Act requires that the Committee hold an annual public meeting. The most recent annual meeting was held in October 2012 in Edmonton. This meeting was televised and was streamed live over the internet along with a live chat, which allowed a greater number of Albertans to participate.

PORTFOLIO CONSTRUCTION

The Government has established an investment goal of earning a long-term rate of return of 4.5 per cent above Canadian inflation, as measured by the Consumer Price Index. In order to achieve the return objective, the Heritage Fund is invested in a globally diversified portfolio of assets. Diversification is the key tool by which risk is mitigated in the portfolio. The Fund holds many different assets that should react differently in a wide variety of market environments. In simple terms, the Fund does not put all of its eggs in one basket.

The President of Treasury Board and Minister of Finance approves the Statement of Investment Policies and Guidelines for the Fund. Within this document is the Heritage Fund's target policy portfolio. The policy portfolio provides a guideline for investment strategies available to the Fund. This base portfolio is determined through extensive financial modeling by the Department and gives the province the ability to manage risk and position the Fund to meet return targets over time.

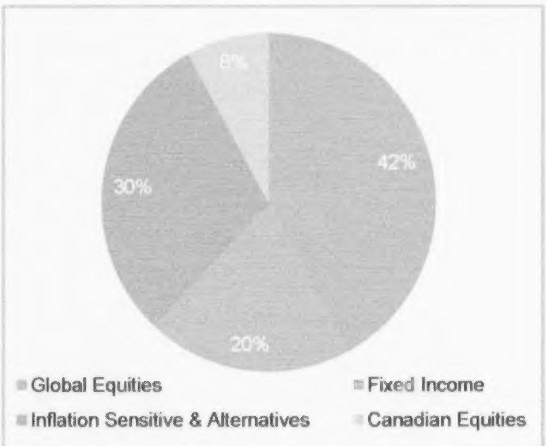
Some key highlights of the policy portfolio are:

- The Heritage Fund has target allocations to three broad categories: equities, fixed income, and inflation-sensitive and alternatives.

- Global focus: Canada only represents approximately five per cent of the world's capital markets. While some of the best companies on the globe are Canadian, there are also attractive opportunities elsewhere in the world. This is especially true for faster-growing, emerging markets in Asia and Latin America. Investing in many different countries and currencies also provides diversification benefits.

- Long-term assets: the policy portfolio for the Heritage Fund calls for significant inflation-sensitive and other alternative investments, such as allocations to real estate and infrastructure. As the Fund has a long-term horizon, it can afford to hold longer-lived and illiquid assets. Real estate and infrastructure generally offer stable long-term cash flows and some measure of inflation protection, which are important for the Fund.

Long-Term Target Policy Asset Mix



AIMCo has the mandate to actively manage the Heritage Fund's portfolio within the parameters of the investment policy. AIMCo is expected to use their expertise to find investments that will beat normal market returns over time. The active management target for the Fund is an additional one per cent on top of the return on the long-term policy benchmark.

THE 2012-13 YEAR IN REVIEW

The fiscal year 2012-13 was eventful for investors with alternating bouts of optimism and pessimism. Gains in the equity markets led to strong performance in global portfolios.

The Eurozone recession and a slowdown in emerging markets weighed on the global economy in 2012. Global growth moderated for the second straight year to 3.2 per cent.

The debt crisis in Europe took an economic toll in 2012. The Eurozone fell into recession and the region's unemployment rate reached its highest level on record. The European Central Bank moved to avert the crisis by committing to unlimited purchases of member states' bonds and has recently signaled its intent to reopen the credit channel to small enterprises. Despite these actions, the Eurozone continues to stumble, with real gross domestic product shrinking for the sixth straight quarter in the first quarter of 2013.

Chinese economic growth slowed to 7.8 per cent in 2012, its lowest annual rate in over a decade. The recession in Europe and tepid growth in other advanced economies negatively impacted China's export sector.

In the U.S., uncertainty over the 'fiscal cliff' restrained economic activity last year. A fiscal deal reached January 1, 2013 removed some of the tax uncertainty, although disagreement over spending led to 'sequestration' cuts starting in March 2013. So far, the U.S. economy appears to be weathering through increased fiscal drag, with improvements in the housing and labour markets playing a role. Economic growth improved to 2.4 per cent in the first quarter of 2013 despite a large reduction in government spending.

Japan's economy bounced back last year, posting two per cent growth. The newly elected government has adopted a more aggressive monetary policy aimed at ending deflation and kick starting the long struggling economy. The new policy resulted in an impressive rally in Japanese equity markets and a sharp depreciation of the Yen through the first quarter of 2013.

Canadian economic growth softened to 1.7 per cent in 2012, hampered by weak export growth and smaller gains in consumer spending. Housing investment, which had been a major driver of national growth, has decelerated for four straight quarters. The Canadian economy was also negatively affected by the terms of trade shock caused by wider oil price differentials. Growth improved in the first quarter of 2013, as a jump in exports overcame weakness in consumer and investment spending.

During fiscal year 2012-13, the U.S. equity markets performed strongly, bolstered by a mitigation of the country's fiscal issues and resilient non-U.S. earnings, with the S&P 500 Index ending the fiscal year up close to 16 per cent in C$ terms. Canadian stocks had a weaker performance over the same period, climbing by 6.1 per cent. European equity indices performed remarkably well in the latter part of 2012 following an exceptional provision of backstop measures by the European Central Bank, but were hampered in the first quarter of 2013 by instability brought about by Cyprus and the Italian elections. They still ended the period with a return of 8.9 per cent.

Monetary easing from central banks and continued safe-haven demand have combined to keep interest rates in developed countries well below historical averages. For instance, 10 year Government of Canada yields dropped from around 2.1 per cent at the beginning of the year to around 1.8 per cent at the end of the year. The continued low interest rate environment led investors to seek out lower credit quality, higher yielding investments which led to further compression in credit spreads during the year. The combination of lower government rates and tighter credit spreads had a positive impact on fixed income returns, with the Canadian diversified fixed income index posting a return of 4.5 per cent. This trend was similar in other developed nations.

Global economic growth uncertainties weighed negatively on commodity prices, as demonstrated by the broad-based Commodity Research Bureau Commodities Index which declined by 1.8 per cent. The North American crude oil benchmark West Texas Intermediate (WTI) ended the fiscal year at US$97.49/bbl, down 6.5 per cent from a year earlier. Natural gas experienced a strong year being up 89 per cent over the same period to reach US$4.02, while gold prices fell by 4.3 per cent year-over-year.

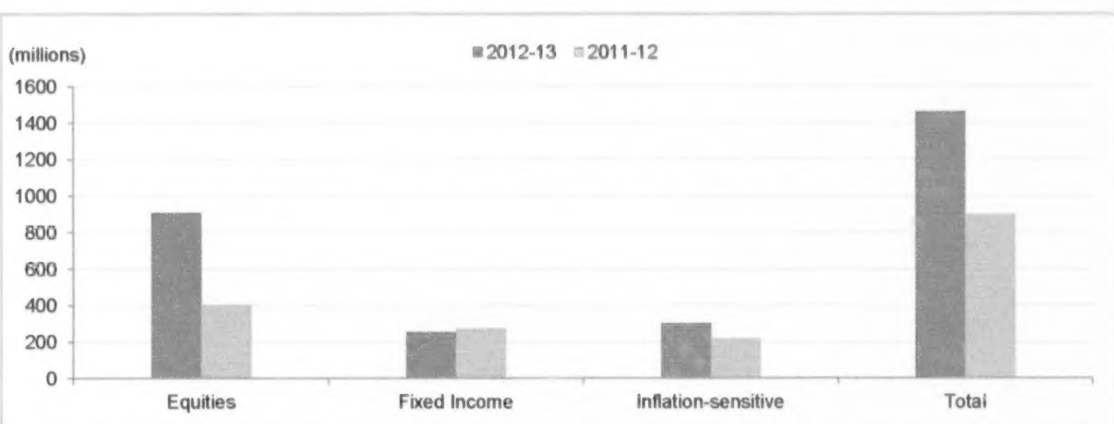
Finally, in currency markets, the U.S. dollar measured against a basket of international currencies (the DXY Index) appreciated by 5.1 per cent over the latest fiscal year. The Canadian dollar weakened by 1.7 per cent during the same period versus the U.S. dollar, caused by concerns regarding prices obtained for energy exports. The Euro fell by 2.2 per cent against the U.S. dollar while the Japanese yen lost about 12 per cent versus U.S. dollar – effectively helping Japanese exporters to gain competitiveness, one of the pillars of the Japanese government's new economic policy.

INVESTMENT INCOME

The Heritage Fund earned gross investment income of $1,464 million for the year ended March 31, 2013, an increase of $567 million over 2011-12. Expense for the year came in at $148 million, and the net investment income for the year was $1,316 million. Inflation was 1.1 per cent for the year, so the amount retained for inflation-proofing was $161 million. The remainder of $1,155 million was transferred to the General Revenue Fund.

The actual net income for the year was $415 million more than the income of $901 million projected in *Budget 2012* and $518 million more than the previous year. The large difference was primarily due to stronger than expected equity markets during the final part of the fiscal year.

Investment Income by Asset Class



Equities were the primary contributor to earnings during the year, earning $908 million or 61 per cent of total income earned by the Heritage Fund. This amount is more than double the $404 million earned from equities in 2011-12. Fixed income earned $254 million in 2012-13, a small decline from the $275 million earned in the previous year. Inflation-sensitive and alternatives investments earned $302 million compared to $218 million in 2011-12.

INCOME TRANSFER AND INFLATION-PROOFING

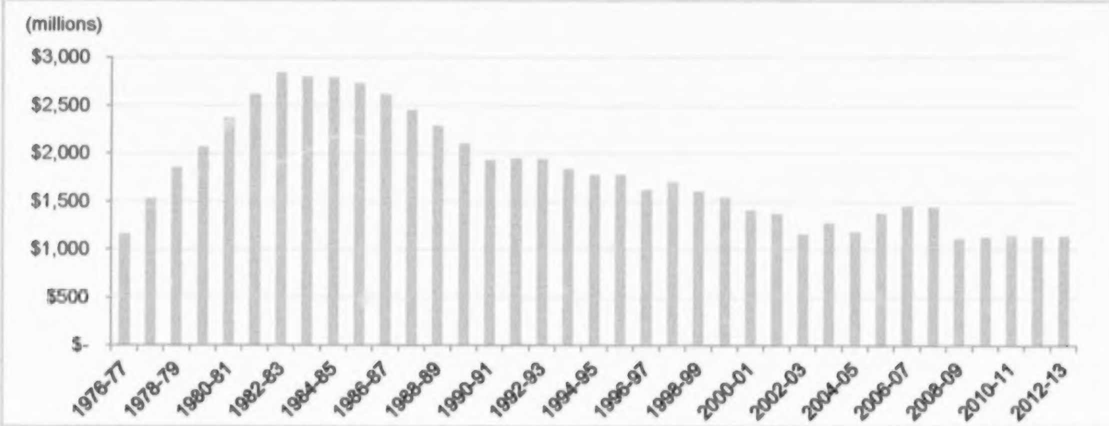
After expenses of $148 million and inflation-proofing of $161 million, the remaining $1,155 million of earned income was transferred to the General Revenue Fund. Since the Fund was established in 1976, $31.1 billion in investment income has been transferred to the General Revenue Fund. An additional $3.5 billion was taken from the Fund from 1976-1995, to pay for capital projects in Alberta. The Fund has supplied a total of $34.6 billion since its formation to provide for the priorities of Albertans.

Income and Cumulative Transfer to GRF

The government announced a new savings policy in Budget 2013 that includes retention of all investment income within the Fund. This policy will be phased in starting in 2014-15 and by 2016-17, all net investment income will be retained in the Fund.

Cumulative inflation since the Heritage Fund's inception has caused prices to increase almost four times from their 1976 level, meaning what cost $1 in 1976 now costs $4. The chart below illustrates how inflation has decreased the value of the Fund and underscores the importance of inflation-proofing The market value per capita in real dollars reached its peak in 1983, when the Fund was worth slightly more than $2,800 per capita in 1977 dollars. Starting in 1987, when deposits into the Fund were stopped until 2005, when deposits into the Fund resumed, the inflation-adjusted fair market value per capita value fell substantially. Since inflation-proofing resumed, the per capita value market value has stabilized. The market value per capita value on March 31, 2013 was $1,146 per Albertan.

Market Value Inflation Adjusted Per Capita
(1977 dollars)



INVESTMENT EXPENSES

The Heritage Fund had investment expenses of $148 million for the year, which was $63 million more than budget and $49 million more than the previous year. The increase from budget was due primarily to the move in the asset mix to more investments in illiquid asset classes such as real estate and infrastructure as these asset classes are more expensive to manage. Another reason for higher expenses is increased performance fees paid due to strong investment results. Performance fees are not budgeted for because they are hard to predict. Investment expenses 2012–2013 were 0.88 per cent of the total value of the Fund.

Investment Expenses

	2012-13	2011-12
Total Investment expenses	148	99
Average Fair Value of Investments	$16,806	$15,951
Per cent of investments at average fair value	0.88%	0.62%

INVESTMENT PERFORMANCE

ASSET MIX

The Heritage Fund continued to increase its exposure to inflation sensitive and alternative investments during the 2012-13 fiscal year. The amount invested in this asset class is now 26.5 per cent, which compares to 24.8 per cent one year earlier and the long-term target of 30 per cent. The increase in inflation sensitive and alternative investments came from a reduction in fixed income investments, which fell from 22.3 per cent to 20.2 per cent. The allocation to equities was 53.3 per cent, compared to 52.9 per cent at the end of 2011-12 fiscal year

Asset Mix

	March 2013	March 2012	Policy range
Fixed Income and Money Market (20%)	20.2%	22.3%	15-45%
Deposits and short-term	0.3%	0.6%	0-25%
Bonds and mortgages	19.9%	21.7%	10-35%
Long bonds	0.0%	0.0%	0-10%
Inflation-sensitive and alternative Investments (30%)	26.5%	24.8%	15-40%
Real estate	17.1%	15.4%	10-20%
Real return bonds	0.0%	0.0%	0-10%
Infrastructure	6.0%	6.3%	5-15%
Private debt	1.8%	1.3%	0-5%
Timberland	1.7%	1.8%	0-5%
Equities (50%)	53.3%	52.9%	35-70%
Public			
Canadian	7.9%	7.8%	5-15%
Global developed	33.8%	35.3%	20-65%
Emerging markets	5.2%	3.4%	0-10%
Frontier markets	0.0%	0.0%	0-5%
Private	6.4%	6.4%	0-10%
Hedge funds	0.0%	0.0%	0-6%

FUND PERFORMANCE

The Heritage Fund had a net of fees return of 11.6 per cent, while the policy benchmark return was 10.1 per cent. The 1.5 per cent value-added represents the active management decisions made by AIMCo. The primary driver of value-add was the overweight position to global equities in the equity portion of the portfolio. The equity portfolio was overweight its policy target; global equities were overweight by up to two per cent throughout the year and global markets vastly outperformed Canadian equity markets last fiscal year. Another key component of AIMCo's value-add was the selection of assets in the fixed income portfolio, which accounted for approximately one-third of the total value added.

The Fund is invested to maximize long-term investment returns. Over a five-year span, the Fund has returned 5.2 per cent on an annualized basis, which is higher than the return on the policy benchmark of 4.9 per cent. Over a 10-year horizon, the Fund returned 8.1 per cent versus a policy benchmark return of 7.6 per cent. Over the 10-year horizon the Fund's return also beat its long-term target of 6.3 per cent (consumer price index + 4.5 per cent).

Total Fund Performance

	2012–13	2011–12	5 Year	10 Year
Fund Rate of Return	11.6	8.2	5.2	8.1
Benchmark	10.1	5.5	4.9	7.6
Active Management	1.5	2.7	0.3	0.5
Long Term Return Target - CPI + 4.5	5.6	7.1	6.3	6.3
Active management target	1.0	1.0	1.0	0.8
Total Target Return	6.6	8.1	7.3	7.1

Asset Class Return versus Benchmark

	1 Year Return	1 Year Benchmark	5 Year Return	5 Year Benchmark
Fixed Income	7.5	4.5	6.3	5.1
Inflation Sensitive and Alternative Investments	10.9	12.0	7.4	7.8
Real Estate	13.5	12.1	8.4	8.4
Infrastructure/Private Debt	8.2	11.8	6.9	7.1
Timberland	-1.5	11.8	2.1	6.2
Equities	13.3	11.4	3.3	2.9
Canadian	8.8	6.1	3.3	2.1
Global	14.8	12.4	2.9	1.7
Private	9.6	12.4	2.7	8.7

EQUITIES

The Fund invests in equities to provide long-term investment growth and income. The Fund invests in equities through a variety of sources such as domestic and foreign stocks and private equities. The Fund currently has $9.1 billion or 53.3 per cent of its assets in equity investments as of March 31, 2013. This is up from $8.7 billion or 52.9 per cent at the end of the previous year. The equities portfolio in the Fund returned 13.3 per cent for the year ended March 31, 2013. This eclipsed the equity benchmark, which had a return of 11.4 per cent.

Canadian Equity

The S&P/TSX Composite index returned 6.1 per cent for the year, which lagged global equity markets substantially. The Canadian stock market is heavily weighted in three main sectors: the financial, energy and materials sectors. These three sectors make up nearly three-quarters of the index. Canadian markets were hampered by poor returns in energy and materials, which returned 0.8 per cent and negative 16.9 per cent respectively. The Heritage Fund had $1.4 billion invested in Canadian equities, up from $1.3 billion the previous year. The Fund's Canadian equities portfolio assets returned 8.8 per cent for the year, beating its benchmark, which returned 6.1 per cent.

Equities

Top 10 Canadian Equity Holdings
As at March 31, 2013

Name	Weight
Royal Bank of Canada	6.4%
Toronto-Dominion Bank	4.4%
Bank of Nova Scotia	4.1%
Suncor Energy	3.9%
Bank of Montreal	3.4%
Canadian Imperial Bank of Commerce	3.3%
TELUS	3.1%
Enbridge	2.7%
Canadian Natural Resources	2.3%
Canadian National Railway	2.3%
Top 10 Total	36.0%

Global Equities and Relationship Investments

The performance of global equities for the Fund is benchmarked against the MSCI All Country World Index in Canadian dollars which returned 12.4 per cent for the year. The Fund's global equity portfolio returned 14.8 per cent for the fiscal year.

At year end, global equities totaled $6.7 billion, up from $6.4 billion the previous year. Approximately half of the global equity holdings are invested in the U.S. and half in Europe, Australasia, and the Far East. A portion of global equities is invested in structured equity products using index swaps and futures contracts, which replicate exposure to global equity markets. Emerging market public equities make up 13.3 per cent of the global equity portfolio and include investments in economies that are in the early stages of development, have sufficient market size and liquidity, and have an investment climate that is receptive to foreign investors. China, Brazil, Korea, Taiwan and Russia make up about 66 per cent of the emerging markets.

Top 10 Global Equity Holdings

As at March 31, 2013

Name	Weight
Precision Drilling*	3.3%
Apple	1.9%
Exxon Mobil	1.9%
TMX Group*	1.8%
The Timken Company	1.5%
Johnson & Johnson	1.2%
BRF-Brasil Foods	1.2%
International Business Machines Group	1.1%
Microsoft	1.1%
Google	1.0%
Top 10 Total	16.0%

* Includes relationship investments that are in AIMCo's Global Portfolio.

Private Equity

Canadian and foreign private equity investment totaled $1.1 billion at year end, which was a slight increase over the $1.0 billion in the previous year. Private equity investments primarily include buyout investments such as expansion capital, acquisition financings, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

The private equity portfolio had a 9.6 per cent return, which underperformed the MSCI ACWI (C$) by 2.8 per cent. Private equity is considered a replacement for public securities and uses a public market benchmark, so short-term underperformance or outperformance can occur if public markets move rapidly in one direction or another.

Private Equity Program Top 10 Holdings

As at March 31, 2013

Name	Sector
Bonanza Creek	Energy
Bloom Energy	Energy
Ladder Capital	Financials
Tomkins Limited	Industrials
Klemke Mining Corporation	Industrials
Kior	Energy
Petro Tiger	Energy
Chinook	Energy
Mosaid	Telecommunication Services
Talon	Health Care

FIXED INCOME

The fixed income investments in the Fund provide a safe and steady source of income for current funding priorities. Fixed income investments tend to offer lower risk and lower volatility than the other investments and tends to stabilize the retums in the portfolio. As of March 31, 2013 the Fund had $3.5 billion or 20.2 per cent invested in the fixed income portfolio, down from $3.7 billion the previous year. The fixed income in the portfolio is primarily held in federal, provincial, municipal and corporate bonds. The Fund also has investments in private mortgages. During the year, overall fixed income portfolio earned 7.5 per cent, 3.0 per cent greater than the benchmark, which eamed 4.5 per cent.

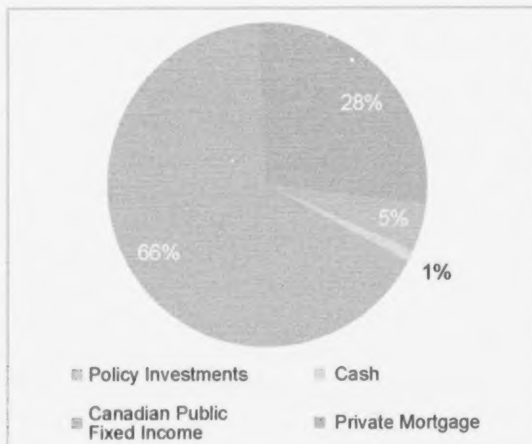
Money Market

Money market investments primarily include short-term, interest-bearing securities issued by banks, various levels of government and major corporations. Money market investments only made up $44 million of the portfolio or 0.3 per cent of the total Fund. The policy of the Fund does the indicate a minimum amount that should be kept in cash or money market, but a small cash balance is inevitable because of the daily flows of money. Money market investments held by the Fund earned 1.1 per cent for the year.

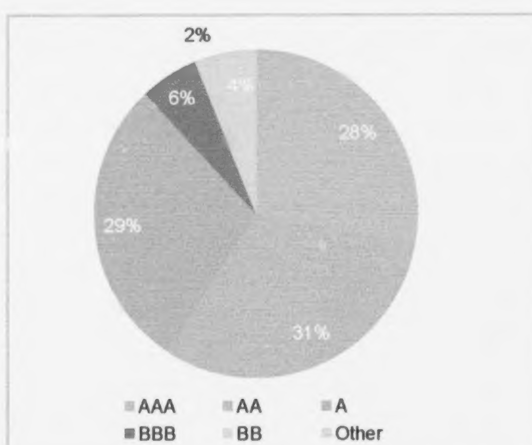
Bonds

The main bond portfolio, which is measured against the DEX Universe Bond Index, was valued at $2.3 billion at year end, down from $2.6 billion the previous year. The bond portfolio returned 7.8 per cent for the year which beat the benchmark return of 4.5 per cent. The portfolio had an overweight position in high quality short-term corporate credit which performed well during the year. The portfolio is comprised of high quality government and corporate bonds.

Fixed Income



Ratings



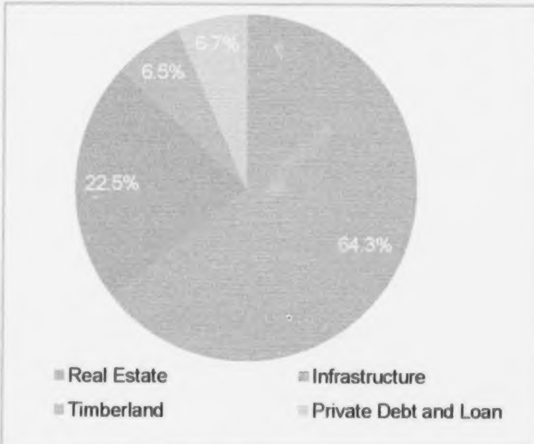
Private Mortgages

Private mortgage investments augment the fixed income portfolio by offering a diversified source of yield enhancement. The private mortgage investments are diversified geographically and by property type. The Fund had investments of $966 million at year end, an increase of $119 million over last year's value. The private mortgage investments returned 6.3 per cent, which beat the benchmark return of 4.5 per cent.

INFLATION SENSITIVE AND ALTERNATIVE INVESTMENTS

Inflation-sensitive investments are used to protect the Heritage Fund's value against the effects of inflation. The higher correlation between these assets and inflation ensures the purchasing power of the Fund will remain the same in the future as it is today. Nearly two-thirds of the investments in this asset class are invested in real estate, with the remainder in infrastructure, timberlands and private debt.

Inflation Sensitive



At March 31, 2013, inflation-sensitive investments made up 26.5 per cent of the total investments, up from 24.8 per cent the previous year. The long-term policy of the Fund is to have these assets account for 30 per cent of the portfolio.

Total inflation-sensitive investments amount to $4.6 billion, which is an increase of $472 million over the previous year. The increase is made up of some gains in the value of investments made in previous years and additional investments made during the year. The overall combined return for inflation-sensitive and alternative investments was 10.9 per cent, 1.1 per cent less than the benchmark return of 12.0 per cent. This under performance can be attributed to poor relative performance in timberlands and infrastructure. The illiquid nature of most of the inflation-sensitive and alternative investments creates a valuation lag, as the properties are only valued on an annual or quarterly basis unlike the market benchmarks which are priced daily. As a result illiquid assets are continually playing catch-up to the more liquid public markets. This year was no exception.

Real Estate

At year end, the Heritage Fund's investment in real estate pools was $2.9 billion, up $390 million from $2.54 billion at the end of the previous year. Real estate holdings are primarily Canadian with $2.4 billion invested, which is 81 per cent of the real estate portfolio. Foreign real estate has become more prevalent in recent years in the portfolio with $556 million invested, which is 19 per cent of the portfolio. This is up from 15 per cent at the end of the previous year, mostly due to increased capital allocated to foreign real estate. Real estate has been a solid performer for the Fund over the past few years, and that trend continued this year with real estate returning 13.5 per cent for the year. The return outpaced its benchmark which returned 12.1 per cent.

Top 10 Real Estate Program Holdings

As at March 31, 2013

Property	Sector	City
Yorkdale Shopping Centre	Retail	Toronto
Square One	Retail	Toronto
Place Ville Marie	Office	Montreal
Scarborough Town Centre	Retail	Toronto
Bow Valley Square	Office	Calgary
8th Avenue Place	Office	Calgary
Toronto Dominion Square	Office	Calgary
Stonegate Landing	Development	Calgary
Calgary Eaton Centre	Office	Calgary
Sun Life Financial Centre	Office	Ottawa

Timberlands

Investments in Canadian and foreign timberland totaled $294 million, down $3 million from the previous year. One-third of the timberland portfolio is in Canada, the largest investment being an ownership interest in timber and related land located in British Columbia. The remaining two-thirds of the timberland investments are outside Canada, primarily in Australia. The Timberland portfolio returned negative 1.5 per cent versus its benchmark return of 11.8 per cent. Timberland is benchmarked against the S&P Global Infrastructure Index (hedged C$), which is a benchmark of publicly traded infrastructure companies. Differences in performance occur because public markets are valued daily and can move more rapidly than private investments.

Timberlands Program Holdings

As at March 31, 2013

Company	Geography
Forestry Investment Trust	Australia
Island Timberlands LP	Vancouver Island, BC, Canada
New Forests Australia New Zealand Forest Fund	Australia and New Zealand
Global Timber Investors 8 Timberfund	Australia, New Zealand, and Latin America

Infrastructure and Private Debt

Infrastructure and private debt investments totaled $1.3 billion at year end, up $84 million from the previous year. Infrastructure investments provide attractive returns plus inflation sensitivity with a long investment horizon. Infrastructure projects include transportation/logistics (e.g., toll roads, airports, ports, and rail); power/energy (e.g., contracted power generation; power transmission and pipelines); and utilities (e.g., water, waste water, natural gas networks). Infrastructure and private debt returned 8.2 per cent compared to its benchmark return of 11.8 per cent. The infrastructure portfolio is also going through a transition, moving to make more direct investments.

Private Infrastructure Program Top 10 Holdings
As at March 31, 2013

Company	Sector	Geography
Autopista Central	Transportation	Chile
Saesa Group	Integrated Utilities	Chile
Puget Sound Energy	Integrated Utilities	US
Frequency Infrastructure Group	Communication	Australia / UK
Thames Water	Water	UK
Compania Logistica de Hidrocarburos	Pipelines & Midstream	Spain
Kinder Morgan	Pipelines & Midstream	US
Copenhagen Airport	Transportation	Denmark
Brussels Airport	Transportation	Belgium
Kemont	Alternative Energy	Canada

CURRENCY EXPOSURE

The Fund invests in a globally diversified portfolio, but most of the assets remain denominated in Canadian dollars. The current policy of the Fund is not to hedge the currency risk. The majority of the Fund's assets are denominated in Canadian dollars, which amounts to 56.9 per cent of the Fund at March 31, 2013. This is down from the previous year, when the Fund had 58.2 per cent invested in Canadian dollar denominated assets. The Fund continues to reduce its Canadian holdings to be a more globally diversified portfolio. The rest of the assets are allocated globally in 37 other currencies, the main ones being the U.S. dollar, euro, Japanese yen, and British pound. The largest foreign currency exposure is to the U.S. dollar, in which the Fund has $3.9 billion invested.

Currency Exposure
As at March 31, 2013

	2013	2012
Canadian Dollar	56.9%	58.2%
US Dollar	22.7%	22.4%
Euro	4.2%	5.0%
British Pound	3.2%	3.2%
Japanese Yen	3.1%	3.1%
Australian Dollar	1.2%	1.8%
Swiss Franc	1.3%	1.1%
Other	7.4%	5.2%
	100.0%	100.0%

HISTORICAL SUMMARY OF OPERATIONS

May 19, 1976 to March 31, 2013
(See note 5 to the Financial Statements)
(in $millions)

Fiscal Year	Net Income (Loss)[a]	TRANSFERS TO THE FUND			TRANSFERS FROM THE FUND		Fund Equity (at cost)
		Resource Revenue Allocation	Deposits	Advanced Education Endowment [b]	Investment Income Transfers [c]	Capital Project Expenditures	
1976-77	88	2,120	-	-	-	(36)	2,172
1977-78	194	931	-	-	-	(87)	3,210
1978-79	294	1,059	-	-	-	(132)	4,431
1979-80	343	1,332	-	-	-	(478)	5,628
1980-81	724	1,445	-	-	-	(227)	7,570
1981-82	1,007	1,434	-	-	-	(349)	9,662
1982-83	1,482	1,370	-	-	(867)	(296)	11,351
1983-84	1,467	720	-	-	(1,469)	(330)	11,739
1984-85	1,575	736	-	-	(1,575)	(228)	12,247
1985-86	1,667	685	-	-	(1,667)	(240)	12,692
1986-87	1,445	217	-	-	(1,445)	(227)	12,682
1987-88	1,353	-	-	-	(1,353)	(129)	12,553
1988-89	1,252	-	-	-	(1,252)	(155)	12,398
1989-90	1,244	-	-	-	(1,244)	(134)	12,264
1990-91	1,337	-	-	-	(1,337)	(150)	12,114
1991-92	1,382	-	-	-	(1,382)	(84)	12,030
1992-93	785	-	-	-	(785)	(84)	11,946
1993-94	1,103	-	-	-	(1,103)	(71)	11,875
1994-95	914	-	-	-	(914)	(49)	11,826
1995-96 [e]	1,046	-	-	-	(1,046)		11,826
1996-97	932	-	-	-	(756) [d]		12,002
1997-98	947	-	-	-	(922) [d]		12,027
1998-99	932	-	-	-	(932)		12,027
1999-00	1,169	-	-	-	(939) [d]		12,257
2000-01	706	-	-	-	(706)		12,257
2001-02	206	-	-	-	(206)		12,257
2002-03	(894)	-	-	-	-		11,363
2003-04	1,133	-	-	-	(1,133)		11,363
2004-05	1,092	-	-	-	(1,092)		11,363
2005-06	1,397	-	1,000	750	(1,015) [d]		13,495
2006-07	1,648	-	1,000	250	(1,365) [d]		15,028
2007-08	824	-	918	-	(358) [d]		16,412
2008-09	(2,574)	-	-	-	-		13,838
2009-10	2,006	-	-	-	(2,006)		13,838
2010-11	1,080	-	-	-	(720) [d]		14,198
2011-12	798	-	-	-	(344) [d]		14,652
2012-13	1,316	-	-	-	(1,155) [d]		14,813
TOTAL	33,420	12,049	2,918	1,000	(31,088)	(3,486)	14,813

a The net income of the Fund and its assets and liabilities, net of consolidation adjustments, is included in the consolidated financial statements of the Ministry of Treasury Board and Finance and the Government of Alberta.

b The Access to the Future Act allows for a maximum of $3 billion to be transferred into the Fund to support the advanced education endowment.

c In accordance with section 8(2) of the Alberta Heritage Savings Trust Fund Act, the net income of the Fund, less any amount retained in the Fund to maintain its value from inflation, shall be transferred to the GRF, annually in a manner determined by the Minister of Finance.

d Includes amount retained in the Fund for inflation-proofing represented by the difference between net income and amount transferred to GRF. At March 31, 2013, the accumulated amount retained in the Fund for inflation-proofing was $2,537 million (2012: $2,376 million).

e March 31, 1996 marked the end of the old structure of the Heritage Fund. In 1996-97, the Fund commenced a structuring process under a new framework. The new framework provided for a transition into more market based investments, inflation proofing the Fund and a long-term investment horizon providing for the greatest financial returns on investments.

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS MARCH 31, 2013

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AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Savings Trust Fund, which comprise the statement of financial position as at March 31, 2013, and the statements of operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2013, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original Signed by Merwan N. Saher, FCA]

Auditor General
June 3, 2013
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2013

(in millions)

	2013 (See Note 2a)	2012
Financial assets		
Investments (Notes 2 and 3)	$ 17,156	$ 15,015
Receivable from sale of investments and accrued income	13	13
	$ 17,169	$ 15,028
Liabilities		
Due to the General Revenue Fund	$ 385	$ 344
Payable from purchase of investments and accounts payable	5	32
	390	376
Net financial assets (Note 5)		
Accumulated surplus from operations	14,813	14,652
Accumulated remeasurement gains	1,966	-
	16,779	14,652
	$ 17,169	$ 15,028

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2013
(in millions)

	2013 Budget	2013 Actual	2012 Actual
Investment income (Note 6)	$ 986	$ 1,464	$ 897
Investment expenses (Note 7)	(85)	(148)	(99)
Net income from operations	901	1,316	798
Transfers to the General Revenue Fund (Note 5b)	(595)	(1,155)	(344)
Net surplus retained in the Fund for inflation-proofing (Note 5b)	$ 306	161	454
Accumulated operating surplus at beginning of year		14,652	14,198
Accumulated operating surplus at end of year		$ 14,813	$ 14,652

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2013
(in millions)

	2013 *(See Note 2a)*
Accumulated remeasurement gains, beginning of year	$ -
Accumulated remeasurement gains upon adoption of PS3450, April 1, 2012	1,440
Unrealized gain on investments	791
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(265)
Accumulated remeasurement gains, end of year	$ 1,966

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2013
(in millions)

	2013	2012
Operating transactions		
Net income from operations	$ 1,316	$ 798
Non-cash items included in net income	(265)	(219)
	1,051	579
Decrease in accounts receivable	-	6
(Decrease) increase in accounts payable	(27)	32
Cash provided by operating transactions	1,024	617
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	4,804	4,243
Purchase of investments	(4,769)	(4,590)
Cash provided by (used in) investing transactions	35	(347)
Transfers		
Transfers to the General Revenue Fund	(1,155)	(344)
Increase in amounts due to the General Revenue Fund	41	68
Cash used in transfers	(1,114)	(276)
Decrease in cash	(55)	(6)
Cash at beginning of year	99	105
Cash at end of year	$ 44	$ 99
Consisting of Deposits in the Consolidated Cash Investment Trust Fund	$ 44	$ 99

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2013
(in millions)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund (the Fund) operates under the authority of the *Alberta Heritage Savings Trust Fund Act*, Chapter A-23, Revised Statutes of Alberta 2000 (the Act), as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements are prepared in accordance with Canadian public sector accounting standards.

The accounting policies of significance to the Fund are as follows:

a) CHANGE IN ACCOUNTING POLICY

Effective April 1, 2012, management implemented PSAB Standard 3450 required for government organizations with fiscal years beginning on or after April 1, 2012. The new standard is applied prospectively. Comparative results have not been restated. The primary changes to the Fund's financial statements from the previous year are as follows:

i) The carrying value of all financial instruments included in investments are measured at fair value to correspond with how they are evaluated and managed. Prior to April 1, 2012, investments were recorded at cost.

ii) Unrealized gains and losses are recorded in the new statement of remeasurement gains and losses. Prior to April 1, 2012, unrealized gains and losses were not recorded in the financial statements. This accounting change increased the April 1, 2012 opening balance of investments and accumulated remeasurement gains by $1.440 billion.

iii) Disclosure of the hierarchy of inputs used in the determination of fair value for investments are reported according to the following levels:

(a) Level one: fair value is based on quoted prices in an active market.

(b) Level two: fair value is based on model-based valuation methods for which all significant assumptions are observable in the market or quoted prices for similar but not identical assets.

(c) Level three: fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 9/89, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Fund reports its share of the financial risks in Note 4.

The fair value of units held by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the sixth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the Statement of Operations and Accumulated Surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units are recorded in the Fund's accounts and included in income on the Statement of Operations and Accumulated Surplus. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

i) Investment expenses include all amounts, including transaction costs, charged to the Fund by AIMCo (see Note 7). Investment expenses are recorded on an accrual basis.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

e) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the Statement of Operations and Accumulated Surplus.

f) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

NOTE 3 INVESTMENTS (in millions)

At March 31, 2013, the carrying amounts of the Fund's investments are recorded on a fair value basis, and on a cost basis at March 31, 2012. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the of President of Treasury Board and Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

NOTE 3 INVESTMENTS (in millions) CONTINUED

Asset class	Fair Value Hierarchy [a] Level 1	Level 2	Level 3	2013 At Fair Value (See Note 2a)	2012 At Cost
Interest-bearing securities					
Deposits and short-term securities	$ -	$ 44	$ -	$ 44	$ 99
Bonds and mortgages	-	2,457	965	3,422	3,474
	-	2,501	965	3,466	3,573
Equities					
Canadian	870	486	-	1,356	1,209
Global developed	3,421	968	1,403	5,792	5,505
Emerging markets	673	139	78	890	523
Private	-	-	1,099	1,099	901
	4,964	1,593	2,580	9,137	8,138
Inflation sensitive					
Real estate	-	-	2,928	2,928	1,829
Infrastructure	-	-	1,026	1,026	1,030
Timberland	-	-	294	294	248
Private debt and loan	-	-	305	305	197
	-	-	4,553	4,553	3,304
Total Carrying Amount of Investments	$ 4,964	$ 4,094	$ 8,098	$ 17,156	$ 15,015

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange. For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments.

Reconciliation of Level 3 Investments

	2013
Balance, beginning of year	$ 7,144
Unrealized gains	375
Purchases of Level 3 pooled fund units	2,978
Sale of Level 3 pooled fund units	(2,399)
Balance, end of year	$ 8,098

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used by AIMCo to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities***: Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. The fair value of directly held loans is estimated by management based on the present value of discounted cash flows.

- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Private debt and loans is valued similar to private mortgages. Infrastructure investments are valued similar to private equity investments.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year -end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the Minister has approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2013		Actual Asset Mix 2012	
Interest-bearing securities	15 - 45%	$ 3,466	20.2%	$ 3,669	22.3%
Equities	35 - 70%	9,137	53.3%	8,705	52.9%
Inflation sensitive	15 - 40%	4,553	26.5%	4,081	24.8%
		$ 17,156	100.0%	$ 16,455	100.0%

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at March 31, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	71%	76%
Speculative Grade (BB+ or lower)	2%	-
Unrated	27%	24%
	100%	100%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 43% of the Fund's investments, or $7,391 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (23%) and the euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.3% of total investments (2012: 4.2%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2013:

	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 3,899	$ (390)	$ 3,679	$ (368)
Euro	724	(72)	828	(83)
Japanese yen	526	(53)	503	(50)
British pound sterling	541	(54)	532	(53)
Australian dollar	200	(20)	289	(29)
Swiss franc	221	(22)	183	(18)
Other foreign currency	1,280	(128)	875	(87)
Total foreign currency investments	$ 7,391	$ (739)	$ 6,889	$ (688)

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.1% of total investments (2012: 1.2%).

The following table summarizes the terms to maturity of interest-bearing securities held in the pools at March 31, 2013:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market
Deposits and short term securities	91%	9%	-	1.3%
Bonds and mortgages	11%	46%	43%	3.9%

d) Price risk

Price risk relates to the possibility that units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.4% of total investments (2012: 6.0%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include transfers payable to the General Revenue Fund and payables related to purchase of units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Fund's Indirect Share 2013		Fund's Indirect Share 2012	
Contracts in favourable position (current credit exposure)	43	$	146	$	175
Contracts in unfavourable position	14		(68)		(70)
Net fair value of derivative contracts	57	$	78	$	105

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $146 (2012: $175) were to default at once.
ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.
iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the Statement of Financial Position.

Types of derivatives used in pools	Fund's Indirect Share 2013		Fund's Indirect Share 2012	
Structured equity replication derivatives	$	100	$	127
Foreign currency derivatives		(30)		(12)
Interest rate derivatives		13		9
Credit risk derivatives		(5)		(19)
Net fair value of derivative contracts	$	78	$	105

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.
ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.
iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.
iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.
v) Contractual maturities: Structured equity replication derivatives and foreign currency derivatives primarily mature within one year. For interest rate derivatives approximately 15% mature within one year; 21% between 1 and 3 years and 64% over 3 years. For credit risk derivatives approximately 32% mature within one year; 1% between 1 and 3 years and 67% over 3 years.
vi) Deposits: At March 31, 2013 deposits in futures contracts margin accounts totalled $27 (2012: $13) and deposits as collateral for derivative contracts totalled $21 (2012: $5).

NOTE 5 NET FINANCIAL ASSETS (in millions)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers to (from) the Fund since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	2013	**2012**
Accumulated net income	$ 33,420	$ 32,104
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future [(a)]	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8(2) transfers [(b)]		
Income	(33,625)	(32,309)
Amount Retained for Inflation-proofing	2,537	2,376
	(31,088)	(29,933)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
	(34,574)	(33,419)
Accumulated surplus from operations	14,813	14,652
Accumulated remeasurement gains	1,966	-
Carrying value of net financial assets	$ 16,779	$ 14,652

(a) Section 9.1 of the *Alberta Heritage Savings Trust Fund Act* (the Act) and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the Fund.

(b) During the year, the Fund earned net income of $1,316 million of which, $161 million was retained in the Fund for inflation proofing and $1,155 million is payable to the General Revenue Fund. Section 8(2) of the Act states that the net income of the Heritage Fund less any amount retained in the Fund to maintain its value, in accordance with section 11(1), shall be transferred to the GRF annually in a manner determined by the Ministry of Treasury Board and Finance. If the income of the Fund is less than that required to be retained, then the income, if any, shall be retained in the Fund. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation-proofing by the estimated percentage increase in the Canadian gross domestic product implicit price index (GDP Deflator Index) for the year. In accordance with section 11(3), if the GDP Deflator Index is a negative number, that negative number shall be treated as if it were zero.

(c) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

NOTE 6 INVESTMENT INCOME (in millions)

The following is a summary of the Fund's investment income (loss) by asset class:

	2013	2012
Interest-bearing securities	$ 254	$ 275
Equities		
Canadian	89	41
Global	715	319
Private	104	44
	908	404
Inflation sensitive		
Real estate	259	205
Infrastructure	16	(1)
Timberland	(7)	9
Private debt and loan	34	4
Inflation sensitive real return bonds	-	1
	302	218
	$ 1,464	$ 897

The investment income includes realized gains and losses from disposal of pool units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. The cost of securities disposed of in the pools is determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in millions)

	2013	2012
Total investment expenses charged by AIMCo [a]	$ 148	$ 99
Average fair value of investments	$ 16,806	$ 15,951
Per cent of investments at average fair value	0.88%	0.62%

[a] Includes $137 thousand (2012: $135 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services, and $50 thousand (2012: nil) paid to the International Forum of Sovereign Wealth Funds for membership.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [(a)]	2013	2012	5 years	10 years
Estimated return [(b)]	11.6%	8.2%	5.2%	8.1%
Estimated policy benchmark return [(b)]	10.1%	5.5%	4.9%	7.6%
Value added by investment manager [(c)]	1.5%	2.7%	0.3%	0.5%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The overall return and benchmark is based on investment returns and benchmarks for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1% per annum, above the policy benchmark.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 15(1) of the Act.

Alberta